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Intermetco Limited 73



Annual Report 1973

Intermetco Limited 73

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Financial Highlights

	1973	1972
Sales	$47,024,000	$31,997,000
Net earnings before extraordinary income	$ 751,000	$ 458,000
Per share	53¢	32¢
Net income	$ 785,000	$ 523,000
Per share	56¢	37¢
Cash flow	$ 1,570,000	$ 1,062,000
Per share	$1.11	75¢
Working capital	$ 1,913,000	$ 2,345,000
Shares outstanding	1,410,036	1,409,036

To Our Shareholders

The past year, the most profitable in your company's history, ended with every prospect of continuing growth stimulated by strong economic support and corporate expansion programs.

Record Profits Enjoyed

Net profit rose to $785,000, compared with $523,000 the previous year. Earnings per share of 56 cents represent an increase of 52 percent.

The high demand for secondary metals in 1973 brought sharp increases in cost and selling prices. Because of the extreme severity of the price changes and their effect on inventory values, your directors have adopted a change in the company's method of inventory valuation from the FIFO concept (first in—first out) to a "basic cost" system. The effect of this change on the company's financial statements was to eliminate inventory profits due to price changes, thus reducing reported earnings by $108,000 after taxes. For comparison, this same change would have had minimal effect on the 1972 results if it had been adopted then.

In addition to strong secondary metals markets, 1973 results also benefited from sound growth in our waste management, steel pipe and manufacturing divisions. Highlights of these activities are reviewed in a subsequent section of this report.

Capital expenditures totalled $2.1 million in fiscal 1973, the highest level in the company's history, and were met by cash flow and working capital. At year-end,



working capital stood at $1,913,000.

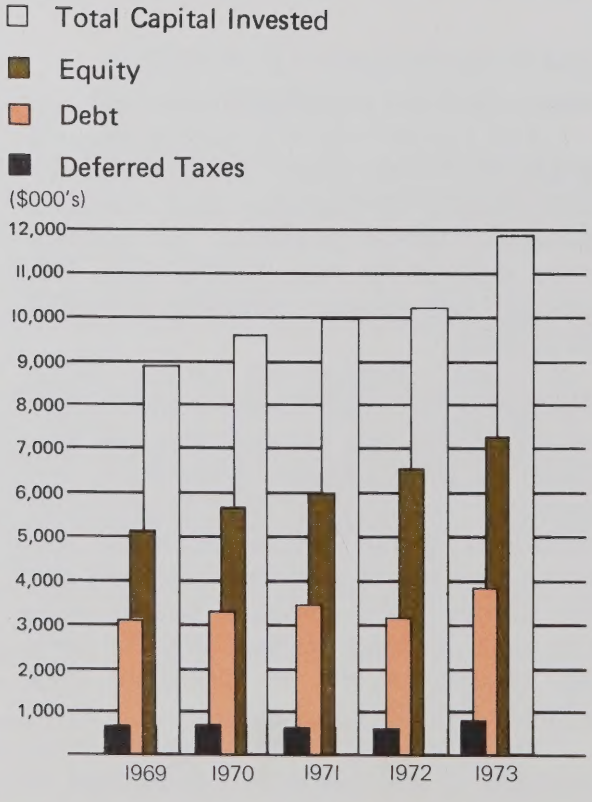
Metals Demand Highlights Year

The metals recycling division enjoyed greatly increased volume in 1973 from record demand by Canadian steel mills and foundries which produced 14 percent more steel in the year than in 1972. The tonnage sold by your company increased 25 percent.

A heavy demand for ferrous scrap throughout the world forced market prices sharply higher and brought about an embargo by the Canadian government and restrictive licencing by the U.S. on export shipments. Since Canada historically suffers a shortage of secondary materials and the United States enjoys a surplus position, your company expects that the present regulations will be eased as they relate to Canada-U.S. trade.

The tight supply situation resulted in an increase of approximately 50 percent in

Intermetco Limited 73



secondary metals prices. Because the industry traditionally operates on a relatively constant dollar spread, profits reflect the physical volume handled rather than gross dollar sales. In the year under review, price increases accounted for $6,200,000 of sales.

Important Acquisitions Completed

During the year, new subsidiaries were acquired to expand both the metals recycling and waste management divisions.

Acquisition of Simkins Metals Limited, operating under the name Scarboro Iron and Metal Company, gave the metals division an important new operation to complement our other Toronto facilities.

The company also purchased G.W. Ramm Company Limited of Mississauga. This addition to our waste management division completes our coverage of the metropolitan area from Oshawa through to Grimsby.

Subsequent to year-end, we disposed of the assets of the machinery division. International Machinery Company, a major distributor of machine tools, has not been profitable in recent years and your directors determined that its continued ownership was no longer compatible with our other activities. The sale was completed in November.

Outlook

The prospects for 1974 hold further gains in your company's earnings. This outlook is based on the growth in direct demand for our products and services, supported by the underlying positive direction in the Canadian economy. We do not expect that the present energy crisis will materially

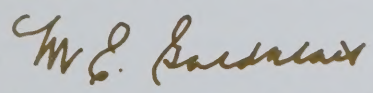
affect our 1974 results.

Several expansion programs are currently underway at Intermetco, particularly in the metals recycling division. These programs, to be completed in 1974, are expected to have substantial impact in future years.

To facilitate these programs and to increase our capability for continuing advancement, a number of new appointments have been made to operations management. These have been achieved both through the successful recruitment of experienced personnel from outside the company and promotions from among our own people.

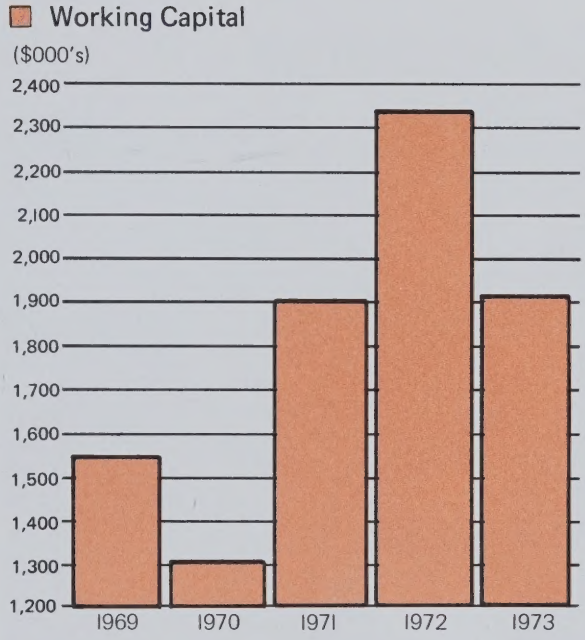
Your directors were saddened by the death in January, 1973 of Mr. George Goldblatt, a director and a vice-president of the company. His lifelong contribution to our progress is gratefully acknowledged.

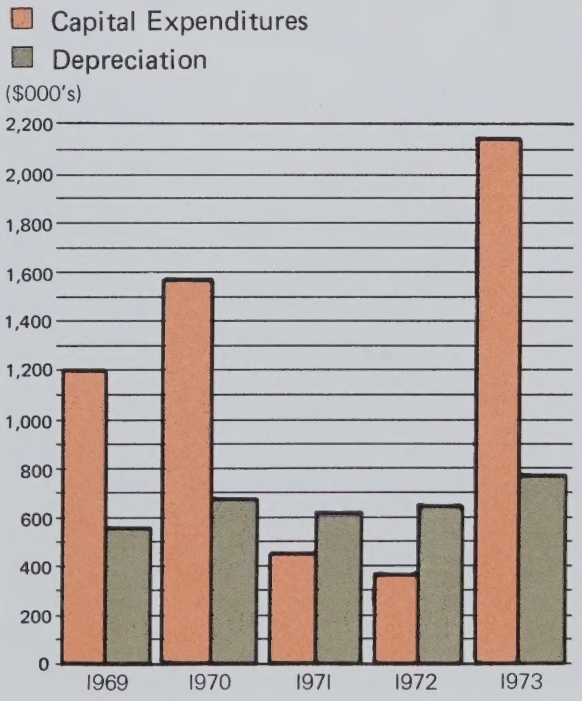
On behalf of the board, I wish to express appreciation to officers and employees at all levels of responsibility for their loyal and efficient services which contribute greatly to your company's success.



Hamilton
December 28, 1973

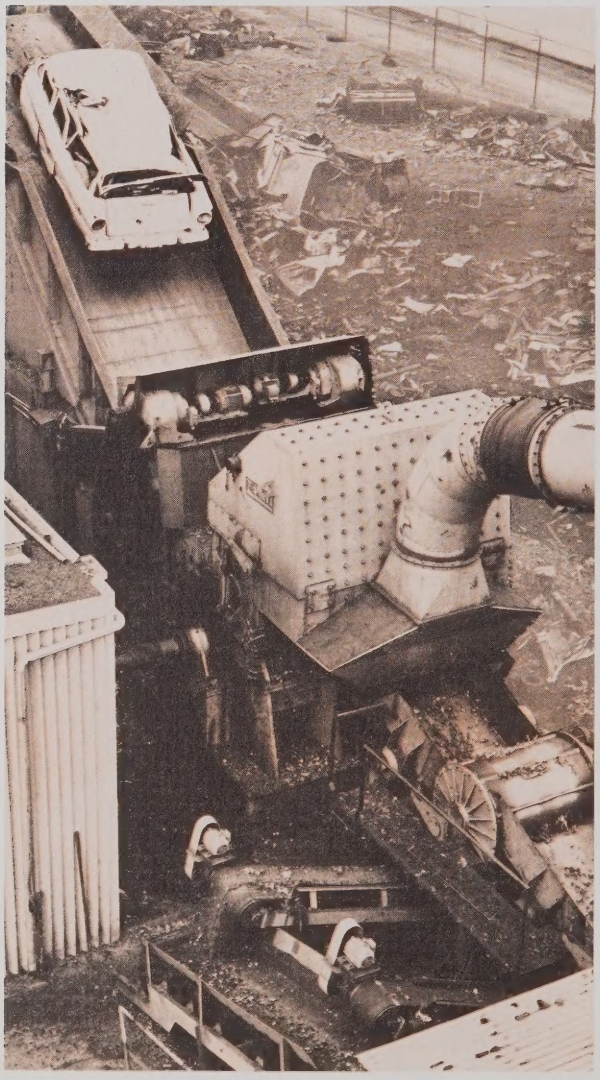
Marvin E. Goldblatt
President





Intermetco Limited 73

Obsolete automobiles are recycled into raw materials for the steel industry by Intermetco's Newell fragmentizer.



Metals Recycling Faces Strong Markets

Intermetco Metals Recycling plays a key role in the reclamation of secondary metals to meet the ever increasing demands of the nation's leading steel and iron producers. Consumption of secondary ferrous metals for recycling into new steel products is expected to increase by about 400,000 tons a year through 1975, from the estimated base consumption of 3.8 million tons in 1973.

The company's major plant is located in the heart of Ontario's industrial region at Hamilton and additional facilities are operated in Toronto and Scarborough. Intermetco draws industrial scrap metal and obsolete automobiles from a wide surrounding area of the province and the neighbouring United States using a large modern fleet of tractor-trailers, container carriers and mobile cranes.

High-powered fragmentizing and shearing equipment at the three plants efficiently convert ferrous materials into metallurgically graded products of controlled size and density for delivery to steel mills and foundries. In October, installation was completed at the Hamilton works of a 800-ton shear to prepare heavy structural sections, making this the only fully-integrated metals recycling plant in Ontario.

The company's giant Newell fragmentizer continues to supply quick melting "Intron" iron for direct charging into electric steel mill furnaces. This installation processes abandoned and obsolete automobiles at the rate of one a minute.

In addition to its own facilities, Inter-

metco holds a 50 percent interest in Windsor Recycling Limited. This is a joint partnership with J. Kovinsky & Sons Limited of Windsor, a major metals recycler in southwestern Ontario and extends your company's marketing power throughout the province.

Waste Management Expands Territory

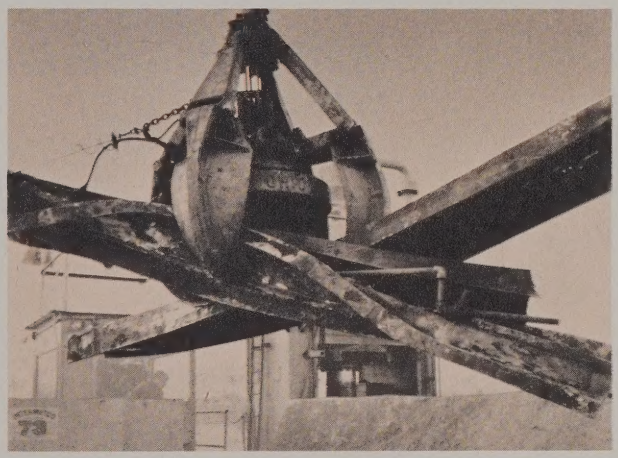
The expansion of the solid waste operation to include the greater Toronto region resulted in a 30 percent increase in business under contract by Intermetco Waste Management.

Intermetco Waste Management, including Industrial Disposal Company in Hamilton and Oshawa and G.W. Ramm Company in Mississauga and Toronto, maintains a growing pool of compaction and container haulers throughout its service area. The division, specializing in industrial wastes, holds many accounts in common with the metals recycling division. Increasing environmental standards and rising industrial output ensure a growing demand for disposal management services.

Research Department Establishes Laboratory

Intermetco's research department has established a laboratory in a company building adjacent to the Hamilton works to replace facilities previously used in the Centre of Applied Research and Engineering Design at McMaster University. The department, formed in 1972 to study metallic and liquid industrial wastes to find marketable recycled products and processing methods, has full-time research

This recently installed 800-ton shear easily slices through heavy structural sections.

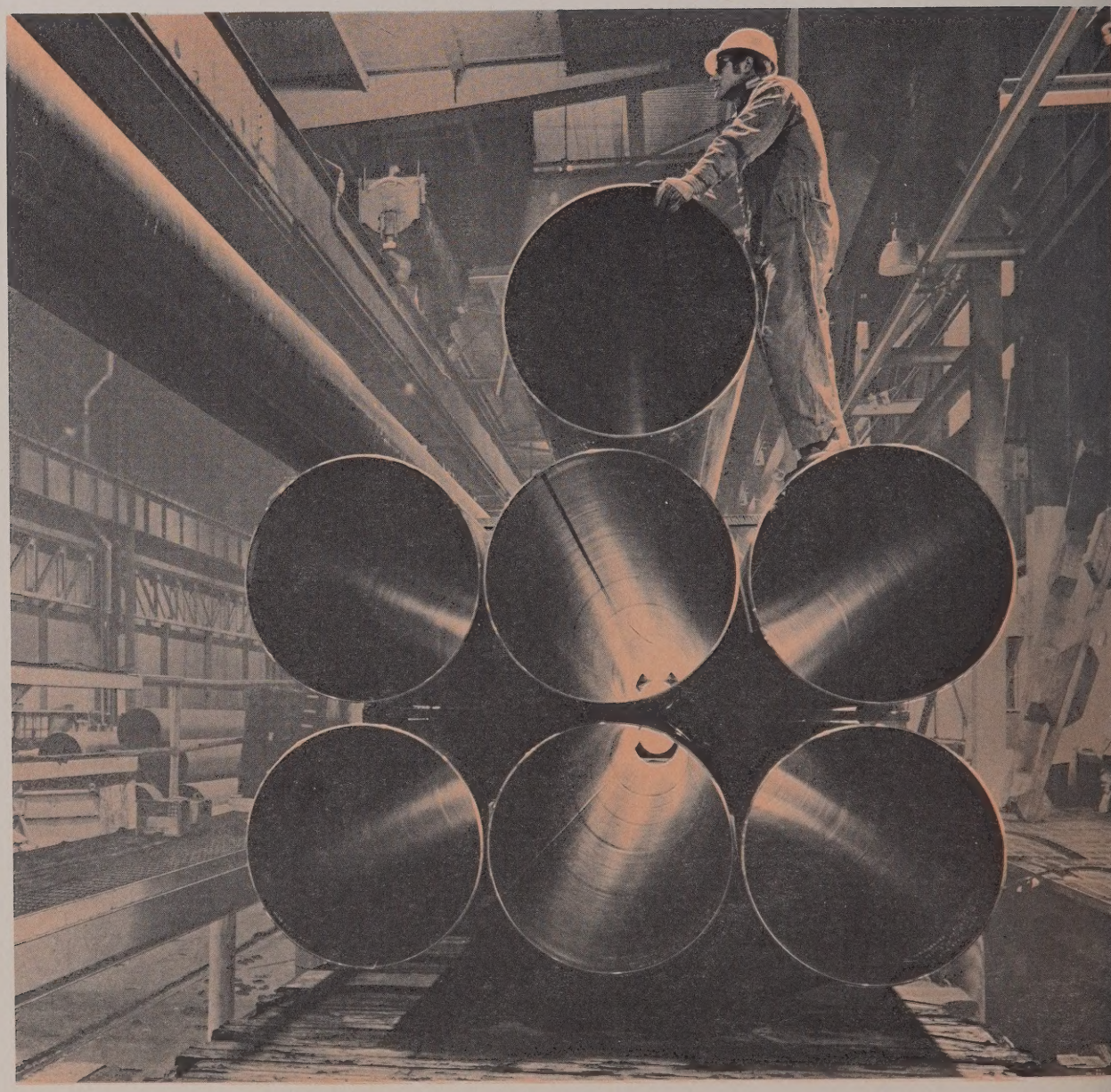


Containerized systems used by the waste management division include front-loading compactor trucks and roll-off container carriers.



Intermetco Limited 73

Structural grade tubular products are among the lines marketed by the steel pipe division.



specialists in metallurgy and chemistry Several significant prospects are currently under evaluation.

Income Properties Held For Investment

The income properties division holds for investment fully-developed industrial and commercial properties in the Hamilton area. The division makes an important contribution to corporate cash flow and is now contributing to earnings. During the past year the division sold four properties including its undeveloped sites and no further expansion is contemplated.

Intermetco Income Properties

	1970	1971	1972	1973
	$	$	$	$
Income producing properties less accumulated depreciation	3,209,271	3,347,066	3,269,802	2,726,334
Gross rental revenue	379,260	396,903	417,318	429,039
Interest expense	141,459	160,858	151,674	128,291
Depreciation	125,924	131,442	131,460	120,976
Net rental income	27,823	2,553	15,965	55,040
Extraordinary income on sale of property	—	—	65,279	34,032
Cash flow	153,747	133,995	212,704	210,048

Intermetco Limited 73

Successful marketing programs at General Refrigeration are backed by rigorous quality controls.



Steel Pipe Division Adds New Lines

Sales by the steel pipe division increased by 54 percent to $6,493,000 in 1973. The Hamilton storage facilities were transferred to a new location to handle the larger inventory required by the growing volume. Total inventory on hand in Hamilton and at sub-depots now exceeds $1.3 million.

During the year the division developed new product lines. In addition to its previous lines of structural grade tubular products, steel sheet piling, bearing pile, wide flange beams and rebar are now being marketed.

The sales increase in 1973 came entirely from the marketing of primary grade products, as compared to the secondary products that had been predominant in previous years. This trend is expected to continue in the future.

Food Chain Growth Aids General Refrigeration

A leading manufacturer of commercial refrigeration equipment, display fixtures and associated products for supermarkets, convenience stores and instututions, General Refrigeration of Canada is enjoying a strong demand for its products. Aggressive marketing and sales programs have assisted in the development of important new customers. Production at the Downsview, Ontario plant has increased by more than 20 percent over the past year and the division is making a growing profit contribution.

Intermetco Limited and subsidiary companies

Consolidated Statement of Income and Retained Earnings

	Year Ended October 31, 1973	Year Ended October 31, 1972
Sales (note 9)	$47,024,336	$31,996,552
Cost of sales and operating expenses (note 9)	45,608,912	31,110,916
	1,415,424	885,636
Income taxes	664,618	427,925
Net income for the year before extraordinary item (note 11)	750,806	457,711
Profit on disposal of real estate (net of income taxes 1973—$21,400)	34,032	65,279
Net income for the year (notes 2 and 11)	784,838	522,990
Retained earnings—beginning of year	1,565,946	1,042,956
Retained earnings—end of year	$ 2,350,784	$ 1,565,946

Intermetco Limited and subsidiary companies

Consolidated Balance Sheet as at October 31, 1973

(with comparative figures as at October 31, 1972)

ASSETS

	1973	1972
Current		
Cash	$ 139,729	$ 10,977
Accounts receivable (note 4)	8,437,778	5,614,639
Inventory (note 2)	3,452,603	3,082,473
Prepaid expenses	120,098	99,298
	12,150,208	8,807,387
Fixed		
Land, buildings and equipment—less accumulated depreciation (note 3)	7,855,972	6,383,612
Other		
Excess of cost of subsidiaries over net book value of their assets	1,655,897	1,287,544
Sundry	281,327	323,670
	1,937,224	1,611,214
	$21,943,404	$16,802,213

ON BEHALF OF THE BOARD

M.E. Goldblatt
Director

A.M. Goldblatt
Director

LIABILITIES

	1973	1972
Current		
Bank advances (note 4)	$ 4,334,905	$ 2,386,920
Accounts payable and accrued liabilities	5,334,596	3,626,141
Income and other taxes payable	378,200	366,321
Current portion of long-term debt (note 5)	189,555	82,894
	10,237,256	6,462,276
Deferred income taxes	690,855	567,185
Long-term debt (note 5)	3,716,996	3,263,243
	14,645,107	10,292,704

SHAREHOLDERS' EQUITY

Capital stock (notes 5 and 6)		
Authorized		
3,000,000 shares of no par value		
Issued and fully paid		
1,410,036 shares	3,967,286	3,963,336
Retained earnings	2,350,784	1,565,946
Contributed surplus	51,035	51,035
Excess of appraised values of land and buildings over depreciated cost	929,192	929,192
	7,298,297	6,509,509
	$21,943,404	$16,802,213

Intermetco Limited and subsidiary companies

Consolidated Statement of Source and Use of Funds

	Year Ended October 31, 1973	Year Ended October 31, 1972
Source of funds		
Net income	$ 784,838	$ 522,990
Items not affecting working capital		
Depreciation and other items	661,253	543,660
Deferred income taxes	123,670	(4,435)
Provided from operations	1,569,761	1,062,215
Proceeds on sale of fixed assets	615,636	283,095
Long-term debt	599,753	—
Proceeds from stock option exercised	3,950	—
Sundry items	42,343	—
	2,831,443	1,345,310
Use of funds		
Excess of cost of subsidiaries over net book value	368,353	—
Purchase of fixed assets	2,762,626	660,918
Debentures purchased for cancellation	132,623	109,456
Long-term debt	—	32,351
Sundry items	—	102,106
	3,263,602	904,831
Increase (decrease) in working capital	(432,159)	440,479
Working capital—beginning of year	2,345,111	1,904,632
Working capital—end of year	$1,912,952	$2,345,111

Intermetco Limited and subsidiary companies

Notes to Consolidated Financial Statements
Year Ended October 31, 1973

1. **Basis of consolidation:** The consolidated financial statements include the accounts of the Company and all of its subsidiaries. During the year the Company purchased all the issued and outstanding shares of Simkins Metals Limited and G.W. Ramm Company Limited. Operations of these two subsidiaries are included only from the date of acquisition.

2. **Inventories:** The Company established a base stock method of valuing ferrous secondary metals as at November 1, 1972. Previously these inventories were valued on the basis of a moving average cost. By application of the base stock method the lower of the quantities of material on hand at November 1, 1972 and October 31, 1973 is valued at the cost prevailing as at November 1, 1972. Quantities in excess of the base levels are valued at the most recent moving average cost. The effect of the change results in a decrease in net earnings for the current year of $108,000 after income taxes.

 All other inventories are valued on a consistent basis.

3. **Fixed assets:**

	1973		
	Cost or Appraised Value	Accumulated Depreciation	Net Book Value
Land — at appraised market values as at July 1, 1968	$ 738,967	$ —	$ 738,967
Land — at cost	721,840	—	721,840
	1,460,807	—	1,460,807
Buildings—at appraised market values as at July 1, 1968	2,375,878	583,667	1,792,211
Buildings and equipment—at cost	9,859,633	5,256,679	4,602,954
	12,235,511	5,840,346	6,395,165
	$13,696,318	$5,840,346	$7,855,972

4. **Bank advances:** Bank advances are secured by a general assignment of book debts.

5. **Long-term debt:**

	1973	197
Loans secured by mortgages on real estate and equipment:		
8.745% mortgage payable monthly, maturing December 15, 1973 (Note 10(b))	$1,354,787	
10.75% mortgage payable monthly, maturing March 1, 1975	—	
8% mortgage payable annually, maturing June 29, 1981	—	
Sundry mortgages with varying interest rates and maturity dates to 1985	45,878	

7½% mortgage payable annually, maturing November 1, 1976	300,000	—
	1,700,665	1,733,137
7½% note payable in annual instalments due November 1, 1974	150,000	—
7½% convertible sinking fund debentures Series A, payable at $150,000 per annum from May 1, 1975—1984 reduced by debentures purchased for cancellation to date totalling $433,000	1,067,000	1,213,000
Bank loan maturing December 31, 1974 secured by a general assignment of book debts and first floating charges on assets of certain subsidiaries	988,886	400,000
	3,906,551	3,346,137
Less current portion	189,555	82,894
	$3,716,996	$3,263,243

7½% Convertible sinking fund debentures Series A:

The debentures are secured by a first floating charge on all assets of the Company subject to prior security on mortgages and bank borrowings; and are redeemable at 105% of the principal to May 1, 1974, reducing ½ of 1% in each year thereafter.

Debentures can be converted at the holder's option at any time until April 28, 1984 or on the third business day immediately preceding the date fixed for redemption, whichever is earlier, into fully paid shares as follows:

135 shares for each $1,000 of debenture principal until April 28, 1974

100 shares for each $1,000 of debenture principal until April 28, 1984

6. Stock options:

Outstanding options granted to executives and senior employees of the Company for the purchase of shares are as follows:

Number of common shares subject to option	Exercise price per share	Option expiry date
1,000	$5.50	March 15, 1974
44,000	$3.95	January 31, 1978

During the year options on 1,000 shares were exercised at a price of $3.95 per share.

7. Commitments and contingent liabilities:

(a) Obligations under long-term leases:

Obligations under certain leases to pay aggregate minimum annual rentals are as follows:

1974-1984	$76,225
1985-1986	$40,975
1987-1988	$38,500

(b) Notes under discount:

At October 31, 1973 contingent liability for notes under discount was $220,675.

8. Pension plan:

The amount of past service costs remaining to be charged to future operations is $465,079, to be liquidated by annual instalments of $44,767 over a period of 5 years, then annual instalments of $42,979 for the next 10 years, based on actuarial advice.

9. Statutory information:

(a) Expenditures for the year included the following:

	1973	1972
Depreciation	$ 770,430	$ 641,747
Interest on long-term debt	$ 297,204	$ 246,725
Remuneration of directors and senior officers	$ 388,611	$ 244,193

(b) Allocation of sales by class of business:

	1973	1
Metals recycling division	$33,786,042	$22,000
Steel Pipe division	6,492,928	4,227,364
Other divisions	6,745,366	5,768,666
	$47,024,336	$31,996,552

10. Subsequent events:

(a) On November 1, 1973 the Company sold the inventory and operations of one subsidiary, International Machinery (Quebec) Limited and a division, International Machinery Company, for a total consideration of $434,246. For the current year the contribution to net income from these operations was not significant.

(b) The 8.745% mortgage maturing December 15, 1973 was replaced with a new mortgage in the amount of $1,300,000, bearing interest at a rate of 1½% above prime bank rate and maturing November 17, 1981.

11. Earnings per share:

	1973	
Basic		
Income before extraordinary item	53¢	32¢
Net income for the year	56¢	37¢
Fully diluted		
Income before extraordinary item	50¢	32¢
Net income for the year	53¢	37¢

Auditors' Report

To the Shareholders of
Intermetco Limited:

We have examined the consolidated balance sheet of Intermetco Limited and its subsidiaries as at October 31, 1973 and the consolidated statements of income and retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of Intermetco Limited and the subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of one subsidiary.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at October 31, 1973 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in basis of inventory valuation as referred to in note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Hamilton, Ontario
December 28, 1973

Coopers & Lybrand
Chartered Accountants

Intermetco Limited 73

Corporate Directory

Head Office

73 Robert Street
Hamilton, Ontario









Metals Recycling

International Iron & Metal Company, Hamilton
Compressed Metals Limited, Toronto
Scarboro Iron & Metal Company, Scarborough
Windsor Recycling Limited, Windsor

Waste Management

Industrial Disposal Company, Hamilton & Oshawa
G.W. Ramm Company Limited, Mississauga

Steel Pipe

Cappco Pipe Piling Limited, Hamilton
Cappco Tubular Products, Hamilton
International Pipe and Tube Company, Hamilton

Manufacturing

General Refrigeration of Canada, Downsview
Weld-O-Matic Machines Company, Hamilton

Income Properties

Burland Realty and Equipment Company, Hamilton

Intermetco Limited 73

Directors and Officers

Frank P. Goldblatt	Director and Chairman, Hamilton
Morley B. Goldblatt	Director and Vice-President, Hamilton
Marvin E. Goldblatt	Director and President, Hamilton
Abby M. Goldblatt	Director and Executive Vice-President, Hamilton
Cyrl H. Hollingshead, Q.C.	Director, Barrister and Solicitor, Toronto
Gerald O. Loach, P.Eng.	Director, Business Executive, Toronto
Albert A. Takefman	Director, Real Estate Broker, Hamilton
John J. Stortz, C.A.	Treasurer, Burlington
Douglas L. Warner, C.A.	Secretary and Comptroller, Burlington
C. Claude Brannan	Director-Emeritus, Retired Business Executive, Burlington

Registrar & Transfer Agent

The Royal Trust Company, Toronto

Solicitors

Fraser & Beatty, Toronto

Bankers

The Bank of Nova Scotia

Auditors

Coopers & Lybrand

Stock Exchange Listing

Toronto Stock Exchange

INTERMETCO LIMITED
P.O. Box 70, Hamilton, Ontario L8N 3B4

AR12

INTERMETCO LIMITED
73 ROBERT STREET
HAMILTON, ONTARIO

INTERMETCO LIMITED

Interim Report To The Shareholders

Six Months Ended April 30, 1973

Report to the Shareholders:

We are pleased to report that the overall operations of your Company for the six months ended April 30, 1973 continue to show substantial improvement in both sales and earnings.

Consolidated sales for the period were $21,-166,000., an increase of $7,203,000. over 1972. Net income was $356,000. or 25¢ per share compared with $235,000. or 17¢ a year ago. Income in both years includes extraordinary gains from the sale of real estate.

The higher sales in the latest period result from increased volume and higher prices, primarily in the metals recycling division. Tonnage volume in this division increased 35%.

Subsequent to this period, Intermetco completed the acquisition of Simkins Metals Limited, a metals recycling processor in Toronto, and G. W. Ramm Company Limited, a waste management company operating in the greater Toronto area. The results of operations of both these companies are not included in the consolidated six months' results but are expected to contribute to earnings for the balance of this fiscal year.

Exceptionally strong demand for the Company's products and services for the last half of the fiscal year indicates that earnings will exceed those reported in the first half and result in your Company recording its most successful year to date.

M. E. Goldblatt

Hamilton, Ontario
June 14, 1973.

M. E. Goldblatt,
President

INTERMETCO LIMITED
and subsidiary companies
CONSOLIDATED INTERIM STATEMENT OF IN
(Unaudited)

Sales

Cost of sales and operating expenses
Depreciation
Interest on long-term debt

Net income before income taxes and extraordinar
Income taxes

Net income before extraordinary income
Profit on disposal of real estate

Net income

Earnings per share:
Before extraordinary income

Net income

INTERMETCO LIMITED
and subsidiary companies
CONSOLIDATED INTERIM STATEMENT OF SO
(Unaudited)

Source of funds:
Operations:
Net income
Depreciation and other items not involving c

Provided from operations
Issuance of capital stock

Application of funds:
Fixed assets purchased
Debentures purchased for cancellation
Long-term debt
Sundry items

Increase in working capital
Working capital, beginning of period

Working capital, end of period

INTERMETCO LIMITED
P.O. Box 70, Hamilton, Ontario L8N 3B4

	SIX MONTHS ENDED APRIL 30	
	1973	1972
	$21,166,113	$13,963,491
	20,071,175	13,150,921
	333,021	310,650
	129,674	124,344
ne	632,243	377,576
	301,404	188,897
	330,839	188,699
	25,000	46,236
	$ 355,839	$ 234,915
	23c	13c
	25c	17c

AND APPLICATION OF FUNDS

	SIX MONTHS ENDED APRIL 30	
	1973	1972
	$ 355,839	$ 234,915
t outlay of funds	274,470	301,573
	630,309	536,488
	3,950	—
	634,259	536,488
	252,001	25,551
	123,422	—
	115,111	111,705
	30,774	(18,432)
	521,308	118,824
	112,951	417,664
	2,345,111	1,881,196
	$ 2,458,062	$ 2,298,860

Report to the Shareholders:

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Exceptionally strong demand for the Company's products and services for the last half of the fiscal year indicates that earnings will exceed those reported in the first half and result in your Company recording its most successful year to date.

M. E. Goldblatt

Hamilton, Ontario
June 14, 1973.

M. E. Goldblatt,
President

INTERMETCO LIMITED
P.O. Box 70, Hamilton, Ontario L8N 3B4